

**REPORT OF THE AUDIT OF THE  
FORMER SIMPSON COUNTY  
SHERIFF**

**For The Period January 1, 2002  
Through January 5, 2003**



**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
[www.kyauditor.net](http://www.kyauditor.net)**

**144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FORMER SIMPSON COUNTY SHERIFF**

**For The Period January 1, 2002  
Through January 5, 2003**

The Auditor of Public Accounts has completed the former Simpson County Sheriff's audit for the period January 1, 2002 through January 5, 2003. We disclaimed an opinion on the financial statement taken as a whole, because the Sheriff did not return a signed management representation letter.

**Financial Condition:**

Excess fees increased by \$21,443 from the prior calendar year, resulting in excess fees of \$23,588 as of January 5, 2003. Revenues increased by \$186,889 from the prior year and disbursements increased by \$179,690.

**Report Comments:**

- The Former Sheriff Should Deposit Personal Funds Of \$24,269 To Eliminate A Deficit In His Official Fee Account As Of January 5, 2003
- The Former Sheriff Should Have Followed Proper Procedures In The Purchase Of Vehicles
- The Former Sheriff Should Pay Excess Fees Of \$23,588 To The Fiscal Court
- The Former Sheriff Should Not Have Overpaid His Salary In The Amount of \$5,629
- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$686,306 To Protect Deposits
- The Former Sheriff Should Have Maintained Accurate Accounting Records
- Lacks Adequate Segregation Of Duties



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**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Jim Henderson, Simpson County Judge/Executive

Honorable Joe Palma, Former Simpson County Sheriff

Honorable R. E. "Gene" Starks, Simpson County Sheriff

Members of the Simpson County Fiscal Court

Independent Auditor's Report

We were engaged to audit the accompanying statement of receipts, disbursements, and excess fees of the former County Sheriff of Simpson County, Kentucky, for the period January 1, 2002 through January 5, 2003. This financial statement is the responsibility of the former County Sheriff.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The former Simpson County Sheriff Joe Palma did not return management representations to us. These representations are a required part of an audit.

Since the former Sheriff did not provide us with the written representations referred to above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this financial statement.

In accordance with Government Auditing Standards, we have also issued our report dated May 7, 2003, on our consideration of the former County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Jim Henderson, County Judge/Executive  
Honorable Joe Palma, Former Simpson County Sheriff  
Honorable R. E. "Gene" Starks, Simpson County Sheriff  
Members of the Simpson County Fiscal Court

We have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Should Deposit Personal Funds Of \$24,269 To Eliminate A Deficit In His Official Fee Account As Of January 5, 2003
- The Former Sheriff Should Have Followed Proper Procedures In The Purchase Of Vehicles
- The Former Sheriff Should Pay Excess Fees Of \$23,588 To The Fiscal Court
- The Former Sheriff Should Not Have Overpaid His Salary In The Amount of \$5,629
- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$686,306 To Protect Deposits
- The Former Sheriff Should Have Maintained Accurate Accounting Records
- Lacks Adequate Segregation Of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 7, 2003



SIMPSON COUNTY  
JOE PALMA, FORMER COUNTY SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period January 1, 2002 Through January 5, 2003

Receipts

Federal Grants		\$	51,600
State Grants			13,929
State Fees For Services:			
Finance and Administration Cabinet	\$	52,007	
Cabinet For Human Resources		<u>176</u>	52,183
Circuit Court Clerk:			
Sheriff Security Service and Arrest Fees			6,670
Fiscal Court			43,708
County Clerk - Delinquent Taxes			1,243
Commission On Taxes Collected			226,159
Fees Collected For Services:			
Auto Inspections	\$	7,833	
Carrying Concealed Deadly Weapon Permits		4,035	
Serving Papers		43,327	
Sheriff's Add-On Fees -			
10% of Penalty and Tax		<u>19,525</u>	74,720
Other:			
Miscellaneous	\$	4,154	
Out Of Court Settlement		1,200	
Reimbursements		<u>3,005</u>	8,359
Interest Earned			1,013
Borrowed Money:			
State Advancement	\$	126,014	
Bank Note		<u>194,749</u>	<u>320,763</u>
Total Receipts		\$	800,347

The accompanying notes are an integral part of this financial statement.

SIMPSON COUNTY  
 JOE PALMA, FORMER COUNTY SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Period January 1, 2002 Through January 5, 2003  
 (Continued)

Disbursements

Payments To State:

Carrying Concealed Deadly Weapon Permits	\$	2,630
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Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	279,738
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Employee Benefits-

Employer's Share Social Security	25,544
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Employer's Share Retirement From State Grant	834
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Contracted Services-

Advertising	425
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Materials and Supplies-

Deputies' Materials and Supplies	14,621
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Office Materials and Supplies	11,274
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Auto Expense-

Gasoline	13,646
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Maintenance and Repairs	18,266
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Mileage	6,320
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Vehicle Insurance	4,327
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Other Charges-

Cellular Telephone and Pager	789
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Miscellaneous	5,989
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Penalties and Interest	441
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Capital Outlay-

Vehicles	23,074
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Debt Service:

State Advancement	126,014
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Notes	194,748
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Interest	1,017
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Total Disbursements	\$	729,697
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The accompanying notes are an integral part of this financial statement.

SIMPSON COUNTY  
 JOE PALMA, FORMER COUNTY SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Period January 1, 2002 Through January 5, 2003  
 (Continued)

Disbursements (Continued)

Less: Disallowed Disbursements			
Employer's Share of FICA on			
Sheriff's Statutory Maximum Overpaid	\$	43	
Not Beneficial to Public:			
Penalties and Interest		441	
Finance Charges		145	
Groceries and Personal Items		237	
Vehicle Purchased With Official Funds			
Not Titled or Received by the County		16,555	\$ 17,421
			<hr/>
Total Allowable Disbursements			\$ 712,276
			<hr/>
Net Receipts			\$ 88,071
Less: Statutory Maximum	\$	62,259	
Training Incentive		2,224	64,483
			<hr/>
Excess Fees Due County			<u>\$ 23,588</u>

The accompanying notes are an integral part of the financial statement.

SIMPSON COUNTY  
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at January 5, 2003.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

SIMPSON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 January 5, 2003  
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 11, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$686,306 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 11, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 117,433
Collateralized with securities held by pledging depository institution in the county official's name	1,470,000
Surety bond	2,500,000
Uncollateralized and uninsured	<u>686,306</u>
Total	<u>\$ 4,773,739</u>

SIMPSON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 January 5, 2003  
 (Continued)

Note 4. Grants

The Simpson County Sheriff's office received \$51,600 from the following three federal grants.

- A. On December 1, 1999, the Simpson County Sheriff's office was awarded a grant under the Community Oriented Policing Services Universal Hiring Award from the Department of Justice in the amount of \$57,098 to be expended over three years. Grant proceeds are to be used for the hiring of an additional law enforcement officer. During the period of January 1, 2002 through January 5, 2003, the Sheriff's office received and expended funds totaling \$15,262. The unexpended grant balance as of January 5, 2003, was \$0.
- B. On April 1, 2000, the Simpson County Sheriff's office was awarded a grant under the Community Oriented Policing Services In School Award from the Department of Justice in the amount of \$76,132 to be expended over three years. Grant proceeds are to be used for the hiring of an additional law enforcement officer. During the period of January 1, 2002 through January 5, 2003, the Sheriff's office received and expended funds totaling \$26,290. The unexpended grant balance as of January 5, 2003, was \$6,647.
- C. On September 1, 2002, the Simpson County Sheriff's office was awarded a grant under the Community Oriented Policing Services In School Award from the Department of Justice in the amount of \$96,157 to be expended over three years. Grant proceeds are to be used for the hiring of an additional law enforcement officer. During the period of January 1, 2002 through January 5, 2003, the Sheriff's office received and expended funds totaling \$10,048. The unexpended grant balance as of January 5, 2003, was \$86,109.

Note 5. Explanation of Deficit

The \$24,269 deficit as of January 5, 2003 resulted from the following transactions:

Disallowed Disbursements:

Employer's Share of FICA on		
Sheriff's Salary Over Maximum - 2002	\$	43
Not Beneficial to the Public - 2002		823
Vehicle Purchased With Official Funds		
Not Titled or Received by the County	<u>16,555</u>	\$ 17,421
Sheriff's Salary Over Statutory Maximum		5,629
Deposit Shortage - 2002		<u>1,219</u>
Total Deficit as of January 5, 2003		<u><u>\$ 24,269</u></u>

SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS





SIMPSON COUNTY  
JOE PALMA, FORMER COUNTY SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

January 5, 2003

Assets

Cash in Bank	\$ 104,806
Deposits in Transit	<u>33,686</u>
Total Assets	<u>\$ 138,492</u>

Liabilities

Paid Obligations:

Outstanding Checks	\$ 11,404
Other Paid Obligations:	
State Treasurer-	
State Advance	126,014
Kentucky Law Enforcement	
Foundation Program Fund	<u>961</u>

Total Paid Obligations	\$ 138,379
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Unpaid Obligations:

Simpson County Fiscal Court -	
Excess Fees - 2002	\$ 23,588
Employer's Share Retirement From State Grant	357
City of Franklin -	
City Withholding	<u>437</u>

Total Unpaid Obligations	<u>24,382</u>
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Total Liabilities	<u>\$ 162,761</u>
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Total Fund Deficit as of January 5, 2003	<u>\$ (24,269)</u>
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## COMMENTS AND RECOMMENDATIONS



SIMPSON COUNTY  
JOE PALMA, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2002 Through January 5, 2003

STATE LAWS AND REGULATIONS:

- 1) The Former Sheriff Should Deposit Personal Funds Of \$24,269 To Eliminate A Deficit In His Official Fee Account As Of January 5, 2003

Sheriff Palma is responsible for a \$24,269 deficit in his official bank account as of January 5, 2003. This deficit results from \$1,219 deposit shortage, \$5,629 in sheriff's salary paid over the allowable statutory maximum, \$16,555 disallowed for the purchase of a vehicle not received by the county, and \$866 for disallowed penalties, interest, finance charges, and personal items. In Funk vs. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses.

We recommend the former Sheriff eliminate this deficit with a personal deposit of \$24,269

*Joe Palma, Former County Sheriff's Response:*

*Regarding \$1,219.00 deposit shortage: The audit report is correct. Proceeds of a check for \$1,200.00 were put in the office safe. We query, however, whether this transaction occurred within the audit period. Mr. Palma did not personally gain from this transaction.*

*Regarding \$5,629.00 alleged overpayment of Sheriff's salary: see item 4.*

*Regarding \$16,555.00 disallowance on vehicle purchased: see item 2.*

*Regarding \$866.00 for disallowed penalties, interest, finance charges, and personal items: salaries in the final quarter of 2002 were to be paid from tax collections. If Mr. Palma understands this correctly, the following explanation is responsive. The Property Valuation Administrator was delayed in printing the tax bills until November 2002 because certain public entities had hearings concerning tax rates that impacted those tax bills so that the tax bills could not be printed earlier in the quarter. As a result, there was a delay in the inflow of tax revenues, causing a shortage of the payroll account at the Sheriff's Office. As a result, the Sheriff's Office had to borrow funds to pay salaries, resulting in finance charges, penalties, and interest.*

- 2) The Former Sheriff Should Have Followed Proper Procedures In The Purchase Of Vehicles

Sheriff Joe Palma obtained a 1997 Chevrolet Tahoe [Tahoe #1 - \$13,300] at dealer's cost for \$13,300. He purchased this vehicle with his personal funds and a trade in of a 1996 Chevrolet Suburban. He leased this vehicle to the Simpson County Fiscal Court in order to qualify the motor vehicle for official license plate and registration pursuant to KRS 186.060 on May 3, 2002.

Sheriff Joe Palma then purchased a 1997 Chevrolet Tahoe [Tahoe #2 - \$16,555] at dealer's cost for \$16,555. This vehicle was purchased with public funds. The dealer received the first check August 23, 2002 for \$11,580 that was from the Sheriff's office. The dealer received the second check October 29, 2002 for \$4,975 that was written to the Sheriff's office from the Simpson County Fiscal Court.

SIMPSON COUNTY  
JOE PALMA, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period January 1, 2002 Through January 5, 2003  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2) The Former Sheriff Should Have Followed Proper Procedures In The Purchase Of Vehicles  
(Continued)

On November 14, 2002, the 1997 Chevrolet Tahoe (Tahoe #1 - \$13,300) was registered for the first time in the Commonwealth of Kentucky to the Simpson County Sheriff. This was the vehicle he left with the Sheriff's office after his term was over.

Sheriff Joe Palma left [Tahoe #1 - \$13,300] with the Sheriff's office and retained [Tahoe #2 - \$16,555] for his own personal use. We did not allow the vehicle purchased with official funds because the county did not receive the vehicle. We did not allow credit for the vehicle that he did leave with the county in our determination of excess fees due to the county because the vehicle's value at the time of transfer was indeterminate.

*Joe Palma, Former County Sheriff's Response:*

*At the time of the trade, it was Mr. Palma's understanding that the Tahoe #2 was of equivalent value to Tahoe #1. Mr. Palma did not have awareness at the time that Mr. Black was paid any amount for Tahoe #2 that was in excess of the value of Tahoe #1. There were no contracts generated by the seller. Mr. Palma believes the facts described in the Exit Conference Report are a result of miscommunication, misunderstanding, or both. Further, the Exit Conference Report fails to take into consideration of the seller's written statement that the retail price of Tahoe #1 was \$15,500.00. Further, the seller, in his written statement, references an invoice which, to Mr. Palma's knowledge and belief, was not generated. At the time of the transactions, Mr. Palma believed no paperwork (sales contracts and so forth) was generated by the seller because it was Mr. Palma's understanding that the seller felt Tahoe #2 was equivalent to the value of Tahoe #1. The seller bought these vehicles at car auctions, and the prices of these vehicles can vary, depending on how well the seller was able to purchase the same at the auctions.*

3) The Former Sheriff Should Pay Excess Fees Of \$23,588 To The Fiscal Court

The former Sheriff's office had excess fees of \$23,588. We recommend that the former Sheriff pay the fiscal court excess fees of \$23,588.

*Joe Palma, Former County Sheriff's Response:*

*See other responses. It is Mr. Palma's understanding that the sum of \$23,588.00 described in this section is included in the sum of \$24,269.00 described in section 1.*

SIMPSON COUNTY  
 JOE PALMA, FORMER COUNTY SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Period January 1, 2002 Through January 5, 2003  
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

4) The Former Sheriff Should Not Have Overpaid His Salary In The Amount of \$5,629

The former Sheriff's statutory maximum in the salary schedule set out in KRS 64.5275 was \$62,259. KRS 64.535 states that "[t]he . . . sheriff shall . . . receive a monthly salary of one-twelfth (1/12) of the amount indicated by the salary schedule in KRS 64.5275." The former Sheriff received \$67,888 for the year. Since the former Sheriff received \$5,629 over the statutory maximum, this amount will be disallowed.

*Joe Palma, Former County Sheriff's Response:*

*The issue here is whether the disputed payments to Mr. Palma were strictly controlled by the Kentucky Revised Statutes, the Simpson Fiscal Court Administrative Code, or both. The Sheriff was paid for accrued and untaken sick days and vacation days, a policy which is described in the Simpson Fiscal Court Administrative Code.*

5) The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$686,306 To Protect Deposits

On December 11, 2002, \$686,306 of the former Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times.

*Joe Palma, Former County Sheriff's Response:*

*No loss was incurred. Mr. Palma thought in good faith that the depository institution was monitoring the tax accounts and raising its pledge when needed.*

6) The Former Sheriff Should Have Maintained Accurate Accounting Records

During the audit of the former Sheriff's receipts and disbursements, we noted errors in the former Sheriff's accounting records.

- a) The former Sheriff's receipts and disbursements ledgers were not posted accurately. KRS 68.210, the Uniform System of Accounts requires the Sheriff to accurately keep and maintain daily receipts and disbursements ledgers. Unrecorded and misrecorded receipts and disbursements were noted.
- b) Receipts ledger and disbursements ledger did not have quarterly or yearly totals.
- c) Individual earning records did not have quarterly or yearly totals for all categories.
- d) The former Sheriff failed to maintain or produce proper documentation for all expenditures during audit period.
- e) Fourth quarterly financial report was not prepared year to date.
- f) The receipts and disbursements ledgers, the total per all four quarterly financial reports, and the annual settlement did not agree.
- g) Invoices were not paid within thirty days.

SIMPSON COUNTY  
JOE PALMA, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period January 1, 2002 Through January 5, 2003  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

6) The Former Sheriff Should Have Maintained Accurate Accounting Records (Continued)

The former Sheriff should have initiated procedures to ensure that all accounting records were accurately maintained, that invoices and other supporting documentation were retained for all disbursements and that these documents were stamped, perforated, or otherwise canceled to reflect payment, and that all funds be deposited intact on a daily basis.

*Joe Palma, Former County Sheriff's Response:*

*The exact nature of unrecorded and misrecorded receipts is not described in the Report, and so response cannot be made with confidence as to the matters addressed by the audit in this regard. Quarterly and yearly totals were not timely performed by the primary person employed for that task who was fired immediately by the new Sheriff, prior to January 5, 2003. Specific lack of documentation for expenditures is not described in the Report, and so response cannot be made with confidence as to the matters addressed by the audit in this regard. Regarding the lack of agreement among the ledgers, the quarterly reports, and the annual settlement, we again point out that the person primarily entrusted to perform these tasks was fired immediately by the new Sheriff, prior to January 5, 2003.*

INTERNAL CONTROL:

7) Lacks Adequate Segregation Of Duties

The former Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. The former Sheriff could have implemented compensating controls to offset this internal control weakness.

*Joe Palma, Former County Sheriff's Response:*

*This is a typical problem in operations of this size and budget restrictions, resulting in limited options. This is also a typical problem in small non-profit organizations. Mr. Palma is not aware of any loss occasioned by this item.*



REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

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Honorable Joe Palma, Former Simpson County Sheriff

Honorable R. E. "Gene" Starks, Simpson County Sheriff

Members of the Simpson County Fiscal Court

**Report On Compliance And On Internal Control**  
**Over Financial Reporting Based On An Audit Of The Financial**  
**Statement Performed In Accordance With Government Auditing Standards**

We were engaged to audit the statement of receipts, disbursements, and excess fees of the former Simpson County Sheriff for the period January 1, 2002 through January 5, 2003, and have issued our report thereon dated May 7, 2003. We did not express an opinion on the financial statement because the former Sheriff did not provide us with required management representations.

Compliance

As part of obtaining reasonable assurance about whether the former Simpson County Sheriff's financial statement for the period January 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations

- The Former Sheriff Should Deposit Personal Funds Of \$24,269 To Eliminate A Deficit In His Official Fee Account As Of January 5, 2003
- The Former Sheriff Should Have Followed Proper Procedures In The Purchase Of Vehicles
- The Former Sheriff Should Pay Excess Fees Of \$23,588 To The Fiscal Court
- The Former Sheriff Should Not Have Overpaid His Salary In The Amount of \$5,629
- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$686,306 To Protect Deposits



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Simpson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Maintained Accurate Accounting Records
- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
May 7, 2003

